

# AUDITOR/CONTROLLER-RECORDER COUNTY CLERK



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May 23, 2005

**Andrew L. Lamberto**

Director of Human Resources

Civic Center Building

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**SUBJECT: AUDIT OF RISK MANAGEMENT'S CLAIMS PROCESSING OF  
LIABILITY AND WORKERS' COMPENSATION CLAIMS**

## Introductory Remarks

In compliance with the Memorandum of Understanding, dated August 23, 1991, we have completed a periodic review of controls over claims processing of Liability and Workers' Compensation claims, in accordance with the standards developed by the Institute of Internal Auditors.

## Scope of Audit

The purpose of this audit is to review control procedures over Liability and Workers' Compensation Claims used by Risk Management, and to determine that controls were adequate to allow periodic audits of samples of claims instead of auditing all Liability and Workers' Compensation Claims. Our review was limited to the system of internal controls and procedures related to Liability and Workers' Compensation Claims for the period January 1, 2003 through December 31, 2003. We tested 60 Liability Claims and 60 Workers' Compensation Claims for compliance with department policies and procedures.

## Results of Audit

The audit was discussed with Risk Management at an exit conference on June 13, 2005. A draft report was subsequently sent to Risk Management on **June 13, 2005**. Responses to the recommendations received on **June 27, 2005** are included in the report.

Our study and evaluation of the system of internal controls would not necessarily disclose all material weaknesses in the system. We did however note conditions that require the

attention of management. These are discussed under the Current Year's Findings and Recommendations Section below.

### **STATUS OF PRIOR YEAR'S FINDINGS AND RECOMMENDATIONS**

The recommendations contained in the prior audit report dated June 23, 2003 relating to findings number 1, 4, 6, and 7, were adopted. Two prior year's findings related to EMS (Emergency Medical Services) were not followed up since EMS was not included in the MOU agreement signed in 1991 and those payments are processed separately. The followings are the prior year's findings that are still occurring in calendar year 2003.

#### **Finding 1: Prior year finding #2**

**Variances documented during the reconciliation of the Workers' Compensation Fund were not always researched and identified.**

##### **Prior Recommendations**

Establish and implement procedures to ensure that all variances are researched, identified, and traceable to supporting documents. Prepare written procedures to direct and document the reconciliation process.

##### **Current Status**

In the Workers' Compensation Funds' reconciliation report for January 2003, some of the adjustments made in FAS were without any supporting documents. The revised January 2003 reconciliation report indicated the adjustments should have been made to the department's Automated Claim System instead of FAS. Unresolved variances or incorrect adjustment made for the variances may result in duplicate or overpayments being overlooked and not corrected in a timely manner.

##### **Further Recommendation**

Fully comply with prior recommendations. Designate an employee not involved in the preparation to review and approve the reconciliation report in a timely manner.

##### **Auditee's Response:**

The Fiscal Section staff understands the requirements of the reconciliation process. Additional training has taken place and staff will avoid incomplete reconciliations. The accountant 1 position will oversee, sign and date each reconciliation on a monthly basis.

**Finding 2. Prior year finding #3**

Discrepancies identified between the accounting systems during the reconciliation process were not resolved.

**Prior Recommendations**

Prepare written operating procedures to direct and document the reconciliation process. Re-format the completed reconciliation report to include, at a minimum, the date prepared, preparer, and reviewer. Designate an employee not involved in the preparation to review and sign the agency's monthly reconciliation and to monitor completion of follow-up adjustments. Provide training to all staff involved.

**Current Status**

Per the January 2003 Liability Funds' monthly reconciliation, there were variance adjustments made to FAS on the reconciliation report without supporting documents. Supporting documents were not provided because the adjustments could not be made to FAS in 2003 fiscal year since the reconciliation was performed in June 2004. Another instance was found in the reconciliation report of December 2003. A FAS Request for Transfer incorrectly adjusted fund IAQ based on an erroneous reconciliation. Furthermore, reconciliation of both the Liability Funds and Workers' Compensation Funds procedures were not promptly reviewed and approved.

**Further Recommendation**

Fully comply with prior recommendations.

**Auditee's Response:**

Written operating procedures exist. As in the previous item, the Fiscal Section staff is aware of the need to complete each reconciliation on a monthly basis, as thorough as possible, and to gather and attach all backup documentation. The preparer will initial and date each month's reconciliation. The accountant I will be in charge of monitoring, reviewing and signing off on each monthly reconciliation.

**Finding 3. Prior year finding #5**

The procedures for coding reconciliation adjustments were not consistently followed.

**Finding 3. Prior year finding #5 - Continued**

**Prior Recommendations**

Reiterate to staff the need to follow established guidelines for coding transactions to reflect corresponding adjustments made in FAS. Conduct periodic supervisory review of work performed.

**Current Status**

An adjustment for a warrant cancellation out of fifteen tested and one for a stop payment out of five tested were coded incorrectly on the Automated Claim System.

**Further Recommendation**

Fully comply with prior recommendations.

**Auditee's Response:**

The procedures for warrant cancellation, stop payments and stale dated warrants have been revised and now reflect a clear definition for each of them. This will allow the Fiscal Assistant to adequately prepare and enter the corresponding adjustments in the Claims Processing System.

**Finding 4. Prior year finding #8**

Several paid invoices were not cancelled.

**Prior Recommendations**

Remind fiscal staff to cancel invoices at the time of processing.

**Current Status**

One settlement-recommendation document for a Liability claim was not cancelled, although the payment had been made.

**Further Recommendation**

Fully comply with prior recommendations.

**Finding 4. Prior year finding #8 - Continued**

**Auditee's Response:**

The fiscal Section staff stamps all invoices and makes sure they are returned to the Liability Section for filing. Staff will be more attentive and make sure all invoices are properly stamped.

**Finding 5. Prior year finding #9**

**Vital liability claim documents could not be located.**

**Prior Recommendations**

Establish a process for ensuring that all documentation necessary to establish approval of payments is received and filed. Remind staff to ensure documents have been physically received and placed in the files before completing the related checklist item.

**Current Status**

Three executed release from liability forms were not in the file.

**Further Recommendation**

Fully comply with prior recommendations.

**Auditee's Response:**

Staff has been reminded to make sure release documents are actually in the file before making that assertion on the claim file closure checklist.. Staff was also directed to follow up with defense counsel when release documents are not timely received.

We wish to thank the management and staff of Risk Management for their assistance and cooperation throughout the audit.

Aud/Rpt  
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May 23, 2005  
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Respectfully submitted,

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By: \_\_\_\_\_  
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